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CORPORATION FILE

CITY STORES COMPANY
AND
SUBSIDIARY COMPANIES

ANNUAL REPORT

JANUARY 31, 1948

CORPORATE OFFICES
207 WEST NINTH STREET
WILMINGTON 43, DELAWARE

BOARD
q668.27
C498r

CITY STORES COMPANY

AND

SUBSIDIARY COMPANIES

CITY STORES UNITS

LIT BROTHERS

Philadelphia, Pennsylvania

Established 1891

MAISON BLANCHE COMPANY

New Orleans, Louisiana

Established 1887

Branches

Carrollton, New Orleans, La. 1942

Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama

Established 1887

LOVEMAN, JOSEPH & LOEB ANNEX

Birmingham, Alabama 1948

R. H. WHITE CORPORATION

Boston, Massachusetts

Established 1858

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee

Established 1855

Branches

LOWENSTEIN'S HOME SERVICE, INC.

Memphis, Tennessee 1944

LOWENSTEIN'S "OUT EAST"

Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY, INC.

Louisville, Kentucky

Established 1879

RICHARD STORE COMPANY

Miami, Florida

Established 1896

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y. 1901

Philadelphia, Pa. 1903

Buffalo, N. Y. 1905

Brooklyn, N. Y. 1906

Garden City, N. Y. 1938

White Plains, N. Y. 1941

East Orange, N. J. 1946

Morristown, N. J. 1947

Germantown, Phila. 1948

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD *Chairman of the Board*
SAUL COHN *President*
DR. WILLIAM D. GORDON *Executive Vice President and Treasurer*
JOHN B. KNOX *Vice President*
MEYER FELDMAN *Vice President*
MILTON A. KAMSLER *Secretary*
GORDON K. GREENFIELD *Asst. Secretary and Asst. Treasurer*
BENJAMIN SCHNECK *Corporate Controller*

DIRECTORS

GUSTAVE G. AMSTERDAM Philadelphia, Pa.	GORDON K. GREENFIELD New York, N. Y.
C. GORDON ANDERSON Miami, Fla.	WALTER T. GROSSCUP Philadelphia, Pa.
MURRY C. BECKER New York, N. Y.	GEORGE H. JOHNSON Philadelphia, Pa.
ALFRED BLASBAND Philadelphia, Pa.	JOHN B. KNOX New York, N. Y.
DAVID BORTIN Philadelphia, Pa.	DR. ISRAEL J. RACHLIN Newark, N. J.
HAROLD W. BRIGHTMAN Philadelphia, Pa.	HARRY W. SCHACTER Louisville, Ky.
PHILIP N. COHAN New York, N. Y.	AARON R. SCHARFF Memphis, Tenn.
SAUL COHN New York, N. Y.	HERBERT J. SCHWARTZ New Orleans, La.
DR. WILLIAM D. GORDON Philadelphia, Pa.	HARRY G. SUNDHEIM Philadelphia, Pa.
ALBERT M. GREENFIELD Philadelphia, Pa.	JOHN J. TURTELTAUB New York, N. Y.

Auditors

ERNST & ERNST
19 Rector Street
New York, N. Y.

Counsel

SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

Transfer Agent

CENTRAL HANOVER BANK & TRUST CO.
70 Broadway
New York, N. Y.

Registrar

THE CHASE NATIONAL BANK OF THE
CITY OF NEW YORK
11 Broad Street, New York, N. Y.

RECORD OF PROGRESS

<u>Year Ended January 31</u>	<u>Sales</u>	<u>Federal and State Income Taxes</u>	<u>Net Earnings</u>	<u>Earnings Per Share</u>	<u>Net Current Assets</u>	<u>Surplus</u>
1948	\$154,795,916	\$3,996,373	\$4,675,371 ^B	\$2.77 ^{C & D}	\$26,614,937	\$19,845,639
1947	138,487,552	4,405,191	5,234,826 ^{A & B}	3.10 ^{C & D}	27,190,832	17,189,855
1946	100,672,187	7,643,164 ^A	2,824,127 ^{A & B}	1.75 ^C	22,484,149	12,006,660
1945	76,721,832	7,444,440	2,131,638 ^B	1.32 ^C	14,976,241	11,231,962
1944	67,898,670	5,495,666	1,869,512 ^B	1.54	13,332,387	9,283,584
1943	60,623,556	3,677,860	1,332,687	1.10	12,138,801	7,727,918

A Includes for 1946 portion of loss on sale of store property of a subsidiary equivalent to income taxes thereby eliminated; balance of loss has been charged to surplus. For 1947 profit of \$860,504 applicable to City Stores Company on sale of radio business by a subsidiary has been credited to surplus.

B From such earnings, provisions for postwar contingencies have been made by subsidiaries, of which City Stores Company's proportion amounts to \$82,328 for the fiscal year ended January 31, 1948, \$48,025 for the fiscal year ended January 31, 1947, \$82,328 for the fiscal year ended January 31, 1946, \$116,632 for the fiscal year ended January 31, 1945 and \$355,815 for the fiscal year ended January 31, 1944.

C Reflects issuance of 400,000 shares of Class "A" stock.

D Reflects issuance of 80,000 shares of Common stock.

ANNUAL REPORT
FOR THE YEAR ENDED JANUARY 31, 1948

April 28, 1948

To the Stockholders:

The Annual Report of your Company, together with financial statements and report of Ernst & Ernst, independent accountants, is submitted herewith. On page 3 there is a six-year summary of the more important financial data reflecting your Company's progress.

SALES

Volume of sales of wholly-owned and controlled units again reached a new high figure, being \$154,795,916, compared with \$138,487,552 for the preceding year, an increase of 11.8%. There also was a slight increase in the aggregate number of transactions.

EARNINGS AND DIVIDENDS

Net Income for the year, applicable to your Company, was \$4,675,371, compared with \$5,234,826 for the preceding year. This was equivalent to \$2.77 per share on Class A and Common Stocks outstanding, compared with \$3.10 per share for the preceding year.

Pursuant to the policy established in 1946, dividends amounting to \$1.20 per share were paid during the year on the Class A and Common Stocks.

Consolidated Earned Surplus at January 31, 1948, amounted to \$17,104,122, an increase of \$2,655,784 over the corresponding figure a year ago.

HIGHLIGHTS OF FINANCIAL STATEMENT

Inventories

Inventories at January 31, 1948 were only slightly greater than the amount on hand at the beginning of the fiscal year. Conditions of supply improved in quality during the year and inventories are in better balance.

Inventories (except as to three subsidiary companies recently acquired) are valued, as they have been since January 31, 1942, by the use of the last-in, first-out principle of determining cost, commonly called "Lifo". In periods of rising prices, as have been witnessed for

some time, this method results in a most conservative basis for pricing inventories, affording a reserve for reductions of values in periods of falling prices. In the case of your Company's units the amount of reserve is \$4,076,291 and the inventories correspondingly are less than would have been the case had the traditional method been followed. In addition to this important "Lifo" reserve, other merchandise reserves of \$588,414 and general contingent reserves of \$1,055,000 are carried.

The Commissioner of Internal Revenue has now concurred in the use of "Lifo" by department stores, with the result that the method adopted by your Company in the past has been approved, except that the Commissioner has stipulated the index to be used in the application of the principle. This necessitated a restatement of inventories for the years since 1941, resulting in a further reduction of inventories by addition to "Lifo" reserve of \$441,385. These changes in inventories also have necessitated a restatement of taxable income for the years involved, resulting in estimated refundable taxes for those years in the amount of \$504,700. The restatement of inventories and taxes provides a net addition to prior years' earnings of \$76,649 (after minority interest adjustment), which is excluded from this year's earnings.

Aging of Inventories and Accounts Receivable

The aging of inventories and accounts reflects satisfactory condition of stocks and customers' obligations.

Accounts receivable increased from \$13,229,998 to \$18,393,301. This increase reflects the improvement in total sales volume and the discontinuance of Federal restrictions on customer credit, effective November 1, 1947, which afforded to the public opportunities of buying durable goods on longer terms than have been experienced during the past five years.

Long Term Obligations

During the year long term notes of \$7,500,000 were reduced by payments to \$5,532,344. This reduction of \$1,967,656 was brought about by using current resources and also the proceeds of \$920,955 received from the purchase from this Company by Lit Brothers, a subsidiary, of 9,141 shares of the latter's 6% Preferred Stock.

In response to a second invitation by Lit Brothers to all its shareholders for tenders to sell its Preferred Stock, on February 19, 1948, this Company sold to Lit Brothers 5,690 additional shares of 6% Preferred Stock and received payment of \$573,267, which funds also were applied in further reduction of the long term obligation. By reason of the afore-said payments, all fixed and contingent installments payable up to, but not including August 1, 1949, have been paid and \$155,844 has been paid on account of any contingent installment that may be required August 1, 1949.

COMPLETED 1947 IMPROVEMENTS AND EXPANSIONS

Lit Brothers, at Philadelphia, completely redesigned and refixed 35,000 square feet of their Second Floor Ready-to-Wear Departments, installed additional up and down escalators and added eighteen new departments and seventeen new customer services.

After a careful review of its expansion program in the light of current conditions, Lit Brothers sold its property at 5704-20 North Broad Street, Philadelphia. A profit was realized on this sale and Lit Brothers is continuing the consideration of future expansion in other locations deemed more suitable to its needs.

Maison Blanche Company, at New Orleans, added new fixtures and improvements in their main store and opened a suburban store at Gentilly, a suburb of New Orleans, with 30,000 square feet of selling space. Refixturing and improvements, while general throughout the main store, were emphasized on the Fashion Floor of the main store and in the new suburban store.

R. H. White Corporation, at Boston, completely modernized and refixed their entire fourth and fifth floors, and inaugurated "Electrical City," an outstanding appliance unit. Additional escalators were installed to give the store complete service to all floors. The Shoe Department also has been thoroughly modernized and redecorated.

Oppenheim, Collins & Co., Inc. opened a modern and complete women's fashion unit in Germantown, a Philadelphia suburb. It is completely air conditioned and the lighting and fixtures are scientifically planned for comfort and practicability.

CURRENT EXPANSION AND FURTHER IMPROVEMENT PROGRAM

Lit Brothers is now completing the balance of improvements to the remaining 20,000 square feet of the Second Floor Ready-to-Wear and Accessory Departments.

Maison Blanche Company has started the installation of eight modern four-foot wide escalators to service all main store floors. They are expected to be in service by September.

Lowenstein's "Out East" branch at Highland and Poplar Avenues, Memphis, is expected to be ready for business by the Fall of this year. This unit will be of the latest design and will be equipped with air conditioning, escalators up and down and a freight elevator. This new unit will have 30,000 square feet of space.

Loveman, Joseph & Loeb will reconstruct and remodel the adjoining property at Second Avenue, Birmingham, and will tie this building in with the main store. This addition will contain approximately 40,000 square feet, and will be used for the enlargement of various departments, particularly home furnishings.

R. H. White Corporation has started construction of new, attractive, modern entrances.

Kaufman-Straus Company, Inc.—Under the terms of the extension of the present lease with The Library Board of Louisville, the owners of the property used by our unit will expend approximately \$585,000 for structural improvements, which will create a first floor balcony and will open the fifth floor and a new sixth floor to selling and stocking goods, and will include escalators and air conditioning. Kaufman-Straus Company, Inc. is obligated to expend \$400,000 for renovating and refixturing its selling departments.

CONCLUSION

We take pleasure in acknowledging the loyal support of our employees, which contributed to the progress of the year.

Control of distribution costs and the improvement of customer relations are among the most pressing problems in retailing today.

We are confident we shall have the continued hearty cooperation of all our co-workers in the solution of these problems.

By order of the
Board of Directors.

ALBERT M. GREENFIELD,
Chairman of the Board.

SAUL COHN,
President.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED PROFIT AND LOSS STATEMENT*

THREE YEARS ENDED JANUARY 31, 1948

	Year Ended January 31, 1948	Year Ended January 31, 1947	Year Ended January 31, 1946
NET SALES—including sales of leased departments	\$154,795,916	\$138,487,552	\$100,672,187
COST OF GOODS SOLD—Note A	103,422,782	92,128,954	64,708,299
GROSS PROFIT ON SALES	\$ 51,373,134	\$ 46,358,598	\$ 35,963,888
INCOME FROM BROADCASTING AND ADJUSTMENTS FOR INSTALLMENT ACCOUNTS	183,325	105,793	1,019,464
TOTAL GROSS PROFIT	\$ 51,556,459	\$ 46,464,391	\$ 36,983,352
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	40,872,141	34,520,136	25,152,787
	\$ 10,684,318	\$ 11,944,255	\$ 11,830,565
OTHER INCOME:			
Interest	46,782	274,436	192,613
Rentals and miscellaneous	1,051,061	1,026,731	1,222,209
	\$ 11,782,161	\$ 13,245,422	\$ 13,245,387
OTHER DEDUCTIONS:			
Interest on City Stores Company's long term obligations	169,939	190,847	170,287
Interest on mortgages, notes payable, etc.	187,855	268,975	500,545
Provisions for depreciation and amortization	1,069,476	807,454	824,789
Non-recurring repairs and alterations	109,670	866,185	—0—
Cost of annuities purchased for pensioned employees of Lit Brothers	—0—	—0—	496,805
Provision for sundry charges, doubtful accounts, etc. (net)	507,692	344,747	171,420
TOTAL OTHER DEDUCTIONS	\$ 2,044,632	\$ 2,478,208	\$ 2,163,846
NET PROFIT BEFORE PROVISION FOR TAXES ON INCOME	\$ 9,737,529	\$ 10,767,214	\$ 11,081,541
FEDERAL AND STATE TAXES ON INCOME—ESTIMATED— NOTE F:			
Provision for current year:			
Federal normal income tax and surtax	3,580,327	4,297,728	1,114,816
Federal excess profits tax	—0—	—0—	3,300,550
State income tax	249,381	289,289	82,684
Adjustments of prior years	166,665	(181,826)	(4,886)
Portion of loss on sale of main store property of subsid- iary company equivalent to taxes on income from op- erations of such subsidiary company for the current year thereby eliminated (Balance of loss—\$3,311,- 004.40—charged to surplus of such subsidiary)	—0—	—0—	3,150,000
	\$ 3,996,373	\$ 4,405,191	\$ 7,643,164
	\$ 5,741,156	\$ 6,362,023	\$ 3,438,377
Less amount applicable to preferred and common stocks of subsidiary companies not owned by City Stores Com- pany	1,065,785	1,127,197	614,250
PROFIT APPLICABLE TO CITY STORES COMPANY	\$ 4,675,371	\$ 5,234,826	\$ 2,824,127
Provision for contingencies after deducting portions appli- cable to minority interest	82,328	48,025	82,328
Adjustments to inventories (last-in, first-out basis) of prior years and applicable federal income taxes—net credit after deducting portions applicable to minority interest	(76,649)	—0—	—0—
BALANCE TRANSFERRED TO EARNED SURPLUS ...	\$ 4,669,692	\$ 5,186,801	\$ 2,741,799

Notes referred to above appear on pages 12 and 13.

* Includes operations of Oppenheim, Collins & Co., Inc., and its subsidiary companies from October 20, 1945, and of Richard Store Company from August 23, 1946.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS

YEAR ENDED JANUARY 31, 1948

EARNED SURPLUS:

Balance at February 1, 1947 \$14,448,338.61

ADD:

Amount transferred from consolidated profit and loss statement for
year \$4,669,692.07

Adjustment of reserve for decline in value of investments of a sub-
sidiary company (\$18,932.07)—less portion applicable to minor-
ity interest 9,624.76

Minority interest's share of the excess of purchase price over par value
of own preferred stocks reacquired by subsidiary companies from
parent company—net 1,924.47 4,681,241.30
\$19,129,579.91

DEDUCT:

Dividends declared:

On Class A stock—\$1.20 per share..... \$ 480,000.00
On Common stock—\$1.20 per share 1,545,457.20 2,025,457.20

EARNED SURPLUS—BALANCE—JANUARY 31, 1948—Notes D and F \$17,104,122.71

CAPITAL SURPLUS:

Balance at February 1, 1947 and January 31, 1948 \$ 2,741,516.65
No change during year

TOTAL SURPLUS—BALANCE—JANUARY 31, 1948 \$19,845,639.36

Notes referred to above appear on pages 12 and 13.

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash		\$10,600,367.15
Marketable securities:		
United States Government securities—at cost and accrued interest	\$ 32,043.00	
Other—at market and accrued interest	59,316.87	91,359.87
Accounts receivable from customers (including \$5,448,136.21 of installment accounts) less reserves of \$1,132,246.36		18,393,301.03
Accounts receivable from vendors and tenants, less reserve of \$10,000.00		483,606.86
Merchandise inventories, less reserves of \$588,414.49 as shown in subsidiary companies' balance sheets—Note A		15,477,303.88
TOTAL CURRENT ASSETS		<u>\$45,045,938.79</u>

INVESTMENTS AND OTHER ASSETS:

Investments:

United States Government securities—at cost and ac- crued interest—Note B	\$ 235,734.37	
Capital stock of a parent company (approximate mar- ket value \$329,300.00)—at cost	120,025.00	
Mortgages receivable (including \$158,172.96 purchased through a parent company or other affiliates)	373,069.03	
Sundry investments, less reserves of \$5,987.56	185,679.14	\$ 914,507.54
Employees and sundry notes and accounts receivable, deposits, etc.	297,943.44	
Cash surrender value of life insurance	37,810.30	
Refundable income and excess profits taxes of prior years—estimated..	918,347.77	2,168,609.05

LAND, BUILDINGS, EQUIPMENT AND IMPROVEMENTS—Note C:

Land	\$ 7,589,836.40	
Buildings, fixtures and equipment	\$20,501,901.42	
Less reserves for depreciation	9,016,092.30	11,485,809.12
Improvements to leased properties	\$ 2,033,467.62	
Less reserves for amortization	514,732.80	1,518,734.82
Construction in progress	212,362.17	20,806,742.51

GOOD WILL (carried on books of subsidiaries in total amount of \$1,745,376.04)	1.00
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DEFERRED CHARGES:

Inventories of supplies, prepaid insurance, taxes and expenses	1,147,350.16
	<u>\$69,168,641.51</u>

AND SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Notes payable:			
Banks (including \$417,423.02 prepayment, based on earnings)	\$	967,423.02	
Other		8,276.20	\$ 975,699.22
Mortgage installments due within one year			137,620.76
Accounts payable for merchandise, etc.			10,376,190.46
Accrued salaries, wages, taxes, interest, etc.			1,800,688.91
Dividends payable by parent company			506,520.30
Federal and state taxes on income—estimated—Note F	\$	4,909,385.41	
Less United States Government tax notes purchased for payment of such taxes when due		275,103.00	4,634,282.41
TOTAL CURRENT LIABILITIES			\$18,431,002.06

LONG TERM OBLIGATIONS:

Notes payable—banks—Note D:			
2½%—payable in seven equal installments of \$500,- 000.00 on the 1st day of August in each year com- mencing August 1, 1949, \$417,423.02 on August 1, 1948, and balance on August 1, 1956	\$	5,532,343.94	
Less amount included in current liabilities above		417,423.02	\$ 5,114,920.92
Mortgages payable	\$	5,405,999.64	
Less installments included in current liabilities above ...		137,620.76	5,268,378.88
Commission — \$20,000.00 payable on February 1, 1949 and \$10,000.00 on February 1, 1950		30,000.00	10,413,299.80

RESERVES:

For redemption of trading stamps, self-insurance, etc.	\$	1,274,899.29	
For contingencies		1,055,000.00	
For restoration of leased properties		441,899.00	
For income taxes on installment sales gross profit (deferred for tax pur- poses)—estimated		430,000.00	3,201,798.29

DEFERRED:

Unrealized gross profit and carrying charges on installment sales—Note E	\$	449,134.95	
Sundry		4,059.43	453,194.38

MINORITY INTERESTS:

Preferred stock of subsidiary companies—at par	\$	2,809,064.00	
Accrued undeclared dividends to January 31, 1948		12,355.82	
Common stock of subsidiary companies		1,300,812.00	
Surplus applicable thereto		4,259,470.80	8,381,702.62

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:			
Class A—6% cumulative and participating:			
700,000 shares authorized	\$	3,500,000.00	
300,000 shares unissued		1,500,000.00	
400,000 shares issued and outstanding			\$ 2,000,000.00
Common:			
1,900,000 shares authorized	\$	9,500,000.00	
609,957 8/12 shares unissued		3,049,788.34	
1,290,042 4/12 shares issued	\$	6,450,211.66	
1,641 4/12 shares in treasury		8,206.66	
1,288,401 shares outstanding			6,442,005.00
			\$ 8,442,005.00
Surplus:			
Capital surplus	\$	2,741,516.65	
Earned surplus (since February 1, 1935)—Notes D and F		17,104,122.71	19,845,639.36
			28,287,644.36
			<u>\$69,168,641.51</u>

Notes referred to above appear on pages 12 and 13.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1948

NOTE A—Inventories of merchandise on hand and in transit are priced generally at cost on the last-in, first-out basis determined by the use of published indices of price changes, less reserves; except as to three subsidiary companies, the inventories (totaling \$5,113,370.07 after deducting reserve) of which are stated generally on the basis of cost or market, whichever is lower as determined by the retail inventory method, or at invoice cost with respect to merchandise in transit.

NOTE B—United States Government bonds in the principal amount of \$235,000.00 have been deposited with the lessor of the main store property by Lit Brothers, as security for the performance of the terms and conditions of the lease.

NOTE C—Stated at cost to subsidiary companies paid for either in cash or in capital stock at time of organization, except as to (1) Kaufman-Straus Company, Inc., where furniture, fixtures, improvements to leased properties, etc., are stated at sound value as determined in January, 1936, by The American Appraisal Company, plus subsequent additions at cost, (2) Kenville Realty Company, where land has been written down and (3) Oppenheim, Collins & Co., Inc., where furniture, fixtures and improvements are stated at nominal value of \$1.00 as at July 31, 1934 plus subsequent additions at cost.

Land, buildings and equipment of Richard Store Company are stated in the balance sheet of that Company at sound values as appraised by independent appraisers in 1939 less accumulated depreciation to January 31, 1948, which is \$437,525.84 in excess of cost. This excess has been eliminated in the consolidated balance sheet.

NOTE D—The loan agreement provides that in addition to the specified fixed annual payments on the notes, the Company shall, on or before August first in each year, commencing with the year 1947, apply to the prepayment, without premium, of the notes, an amount equal to 25% of the excess over \$3,000,000.00 of the consolidated net profit of the Company and its subsidiaries for the preceding fiscal year. Such prepayments shall be applied to the latest maturities under the notes. The Company has the right at any time to prepay all of the notes or from time to time to prepay a part of the notes; but only in each case in accordance with provisions enumerated in the loan agreement.

Until payment in full of the notes and interest thereon, unless the lending banks consent in writing to its doing otherwise, the Company covenants, among other things, that it will (a) maintain consolidated current assets (as defined) in excess of consolidated current liabilities (as defined) at not less than \$16,000,000.00 and in a ratio of not less than 2 to 1 and (b) pay no dividends on any shares of the Company's capital stock (except dividends payable in shares of its capital stock) in an amount which would exceed Earnings Available for Dividends (as defined) subsequent to February 1, 1946. Such Earnings available for dividends aggregated \$5,658,115.01 at January 31, 1948.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

JANUARY 31, 1948

Provisions of the loan agreement also provide for the application of proceeds from sale of the Company's holdings in capital stocks of subsidiaries to the reduction of the notes. Accordingly, proceeds from the sale (\$920,955.75) to Lit Brothers, a subsidiary company, on November 21, 1947, of 9,141 shares of that Company's own 6% Cumulative Preferred Stock was applied to the specified fixed annual payment of \$500,000.00 due on August 1, 1948 and the balance to the last installment on the notes due August 1, 1956.

NOTE E—Deferred income from installment sales comprises (1) carrying charges not earned at January 31, 1948 on customers' installment sales as to three subsidiaries and (2) unearned carrying charges and unrealized gross profit on installment sales as to three other subsidiaries.

NOTE F—These statements are subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

NOTE G—Reference is made to the pertinent notes appearing on the accompanying balance sheets of City Stores Company and subsidiary companies.

ERNST & ERNST
19 RECTOR STREET
NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of City Stores Company and subsidiaries and have examined (with the exception noted below) the balance sheets of the individual companies as of January 31, 1948, and the statements of profit and loss and surplus of City Stores Company and the consolidated statements of profit and loss and surplus of that Company and its subsidiaries for the fiscal year then ended; have reviewed the systems of internal control and the accounting procedures of the companies, and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. The consolidated financial statements of Oppenheim, Collins & Co., Inc., and its subsidiary companies were not examined by us and have been incorporated in the accompanying consolidated financial statements on the basis of a report by other independent accountants.

Our examination included tests of accounts receivable by direct communication with a selected number of customers. We were present at stores at appropriate times during the taking of inventories and observed procedures followed by the companies in determination of quantities and made test counts of quantities.

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, and the balance sheets of the individual companies examined by us, present fairly the consolidated position of City Stores Company and its subsidiaries and of the individual companies at January 31, 1948, and the consolidated results of their operations and of the operations of City Stores Company for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

April 22, 1948.

CITY STORES COMPANY (Individually)

PROFIT AND LOSS STATEMENT

YEAR ENDED JANUARY 31, 1948

INCOME:

Dividends from subsidiary companies—cash	\$2,061,689.50	
Payments by subsidiary companies for management, advisory and sales service, less amount of \$351,067.31 transferred to City Stores Mercantile Company, Inc. (a wholly-owned subsidiary) for buying services ..	350,128.93	
Profit on sale of 9,141 shares of 6% Cumulative Preferred Stock of Lit Brothers, a subsidiary company (purchased by the subsidiary and held in its treasury at January 31, 1948)	6,855.75	
Miscellaneous, including interest from subsidiary companies of \$24,531.25	<u>25,089.12</u>	\$2,443,763.30

DEDUCTIONS:

General expenses	\$ 215,365.38	
Interest on long term notes payable	<u>169,939.36</u>	385,304.74
PROFIT BEFORE TAXES ON INCOME		<u>\$2,058,458.56</u>

FEDERAL TAXES ON INCOME—estimated:

Provision for year	\$ 117,000.00	
Less overprovision for prior year	<u>131.66</u>	116,868.34
NET PROFIT FOR YEAR		<u><u>\$1,941,590.22</u></u>

EARNED SURPLUS

Balance at February 1, 1947		\$4,304,651.55
Net profit for year		<u>1,941,590.22</u>
		\$6,246,241.77
Deduct dividends declared:		
On Class A stock—\$1.20 per share	\$ 480,000.00	
On Common stock—\$1.20 per share	<u>1,546,081.20</u>	2,026,081.20
BALANCE AT JANUARY 31, 1948—Notes B and C		<u><u>\$4,220,160.57</u></u>

CAPITAL SURPLUS

Balance at February 1, 1947 and January 31, 1948	<u>\$1,879,085.45</u>
No change during year.	

The notes referred to appear on page 16.

BALANCE SHEET,

ASSETS

INVESTMENTS IN AND NOTES RECEIVABLE FROM SUBSIDIARY

COMPANIES:

Investments in securities—Note A:

City Stores Company proportion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1935, plus (a) subsequent acquisitions of capital stocks of subsidiaries at cost and (b) \$33,038.35 representing cancellation of subsidiary company's indebtedness to City Stores Company at January 31, 1937

\$19,822,309.99

Notes receivable 400,000.00 \$20,222,309.99

CURRENT ASSETS:

Cash 559,308.57

INVESTMENT AND OTHER ASSETS:

Investment in capital stock of Affiliated Retailers, Inc. \$ 84,000.00

Sundry accounts receivable 697.75 84,697.75

EQUIPMENT—AT COST:

Furniture and fixtures \$ 8,719.57

Less reserve for depreciation 2,608.41 6,111.16

DEFERRED CHARGES:

Leasehold improvements, less amortization \$ 4,226.16

Prepaid insurance and expenses 1,514.50 5,740.66

NOTE A—City Stores Company proportion of net tangible assets of subsidiaries at January 31, 1948, amounted to \$33,568,702.33.

NOTE B—Reference is made to Note D of "Notes to Consolidated Financial Statements" with respect to certain provisions under the loan agreement.

NOTE C—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

\$20,878,168.13

COMPANY (Individually)

JANUARY 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Notes payable—banks:

Prepayment based on earnings due August 1, 1948 \$ 417,423.02

Accounts payable:

Subsidiary companies \$ 125,356.28
For expenses, etc. 20,023.96 145,380.24

Accrued taxes, etc. 5,672.63

Dividends—payable February 2, 1948 506,520.30

Federal taxes on income—estimated—Note C 117,000.00

TOTAL CURRENT LIABILITIES \$1,191,996.19

LONG TERM OBLIGATIONS:

Notes payable—banks—Note B:

2½%—payable in seven equal installments of \$500,-
000.00 on the 1st day of August in each year com-
mencing August 1, 1949, \$417,423.02 on August 1,
1948, and balance on August 1, 1956 \$5,532,343.94

Less amount included in current liabilities above.... 417,423.02 \$5,114,920.92

Commission—\$20,000.00 payable on February 1, 1949 and \$10,000.00
on February 1, 1950 30,000.00 5,144,920.92

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:

Class A—6% cumulative and participating:

700,000 shares authorized \$3,500,000.00
300,000 shares unissued 1,500,000.00
400,000 shares issued and outstanding \$2,000,000.00

Common:

1,900,000 shares authorized \$9,500,000.00
609,957 8/12 shares unissued 3,049,788.34
1,290,042 4/12 shares issued \$6,450,211.66
1,641 4/12 shares in treasury 8,206.66
1,288,401 shares outstanding 6,442,005.00
\$8,442,005.00

Surplus:

Capital surplus \$1,879,085.45

Earned surplus (since February 1, 1935)—Notes B
and C 4,220,160.57 6,099,246.02 14,541,251.02
\$20,878,168.13

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash			\$ 6,818,729.25
Accounts receivable:			
Trade—including installment accounts of \$3,234,237.81	\$8,172,138.77		
Creditors' debit balances	94,592.74	\$8,266,731.51	
Less reserve for doubtful		500,000.00	7,766,731.51
Merchandise inventories (Note A)			4,007,535.95
TOTAL CURRENT ASSETS			<u>\$18,592,996.71</u>

INVESTMENTS AND OTHER ASSETS:

Securities—at cost:			
United States Government securities and accrued interest (Note C)	\$ 235,734.37		
Capital stock of a parent company (indicated market value \$255,300.00)	99,025.00		
Sundry investments	15,104.00	\$ 349,863.37	
Mortgages receivable (including \$158,172.96 purchased through a parent company or other affiliates)		373,069.03	
Sundry accounts receivable and deposits		91,070.46	
Refundable income and excess profits taxes of prior years		659,977.18	1,473,980.04

PROPERTY, PLANT AND EQUIPMENT—AT COST:

Land		\$2,057,098.25	
Buildings, fixtures and equipment	\$5,498,875.74		
Less reserves for depreciation	2,223,634.27	3,275,241.47	
Equipment under construction		23,766.11	
		<u>\$5,356,105.83</u>	
Leasehold improvements	\$1,124,464.47		
Less amortization	60,129.91	1,064,334.56	6,420,440.39

GOOD WILL			1.00
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DEFERRED CHARGES:

Prepaid rent, expenses and inventory of supplies		240,376.91	
		<u>\$26,727,795.05</u>	

NOTE A—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in an aggregate amount for inventories at January 31, 1948, approximately \$2,125,000.00 less than the amount which would have been determined under the retail inventory method applied without regard to the last-in, first-out principle.

NOTE B—During the fiscal year ended January 31, 1946, the Company sold its main store property at a loss of \$6,461,004.40. As a result of the loss, no provision for taxes on income of the Company for that year was made, and refundable taxes on income of prior years were estimated in the sum of \$1,325,000.00 through application of the carry-back provisions of the Internal Revenue Code. The Company has received a ruling from the Bureau of Internal Revenue stating that any loss sustained on the sale of the property is deductible for tax purposes, but the amount of deductible loss is subject to final determination. Until final settlement in respect to the aforementioned loss and examination of the tax returns in other respects, the ultimate amounts of income and excess profits taxes for all years subsequent to the year ended January 31, 1940, are subject to final determination.

SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1948

LIABILITIES

CURRENT LIABILITIES:			
Trade accounts payable		\$	2,529,452.94
Salaries, wages and commissions, payroll taxes, and taxes withheld from employees....			747,640.46
Dividends payable			3,302.42
Accrued accounts			198,455.17
Federal and state taxes on income—estimated (Note B)			2,216,450.95
First mortgage installments maturing within one year			27,085.41
TOTAL CURRENT LIABILITIES		\$	5,722,387.35
FIRST MORTGAGE ON LAND AND BUILDINGS:			
Due quarterly 1948 to 1955	\$1,206,121.46		
Less principal installments maturing within one year	27,085.41		1,179,036.05
RESERVES:			
For redemption of trading stamps	\$	967,512.98	
For income taxes on installment sale gross profit (deferred for tax purposes)—estimated		430,000.00	
For contingencies		780,000.00	
For self insurance		92,424.90	2,269,937.88
DEFERRED CREDITS:			
Unearned carrying charges on installment sales	\$	98,380.96	
Prepaid rents		2,169.17	
Discounts applicable to unsold merchandise		269,692.62	370,242.75
CAPITAL STOCK AND SURPLUS:			
Capital stock:			
Preferred 6% cumulative, par value \$100.00 per share; redeemable at \$105.00 per share (Notes D and E):			
Authorized and issued 120,000 shares; outstanding 78,292.64 shares after deducting 41,707.36 shares in treasury		\$7,829,264.00	
Common, no par value:			
Authorized and issued 1,000,000 shares; outstanding 999,145 shares after deducting 855 shares in treasury		999,145.00	
TOTAL CAPITAL STOCK		\$8,828,409.00	
Surplus:			
Capital	\$	80,133.83	
Earned (Notes B and E)	8,277,648.19	8,357,782.02	17,186,191.02
			\$26,727,795.05

NOTE C—U. S. Government bonds in the principal amount of \$235,000.00 have been deposited with the lessor of the main store property, as security for the performance of the terms and conditions of the lease.

NOTE D—Dividends on the preferred 6% cumulative stock have been paid to January 2, 1948, a dividend date.

NOTE E—As of February 16, 1948, the Company had contracted to purchase 8,292.20 shares of its preferred capital stock for \$835,256.45.

MAISON BLANCHE COMPANY AND

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash	\$ 260,831.59	
United States Government securities—at cost and accrued interest	11,955.00	
Accounts receivable—trade (including \$443,639.70 of installment accounts) less reserve of \$185,029.07	2,720,885.96	
Accounts receivable—tenants, less reserve of \$10,000.00	10,936.91	
Merchandise inventories—at cost on the basis of "last-in, first-out" determined by the use of published indices of price changes, less reserve of \$40,000.00	2,904,895.57	
TOTAL CURRENT ASSETS	\$ 5,909,505.03	

AFFILIATED COMPANIES:

Accounts receivable	15,922.64
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INVESTMENTS AND OTHER ASSETS:

Investments:

Capital stock of a parent company (approximate market value \$74,000.00)	\$ 21,000.00	
Capital stock of City Stores Company—book carrying amount of 94 shares of common stock	470.01	
Investments in other companies	65,219.37	
Sundry accounts receivable, advances and cash in closed banks, less reserve of \$275.12	42,479.44	
Refundable income and excess profits taxes of prior years—estimated ..	81,600.00	210,768.82

INVESTMENT IN SUBSIDIARY COMPANY:

B. Lowenstein & Bros., Inc.:

Investment in 11,450 shares of common stock (its entire outstanding capital stock)—at cost—(net tangible assets as shown by that subsidiary company's consolidated balance sheet at January 31, 1948 amounted to \$2,577,824.74)	2,219,411.38
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LAND, BUILDINGS AND EQUIPMENT—AT COST—NOTE A:

Land	\$1,266,616.45	
Buildings, fixtures and equipment	\$4,679,821.55	
Less reserves for depreciation	2,275,205.17	2,404,616.38
Improvements to leased property	\$ 564,641.49	
Less reserve for amortization	305,423.31	259,218.18
		3,930,451.01

GOOD WILL—as stated on books	376,031.24
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses	220,639.67
	<u>\$12,882,729.79</u>

CONSOLIDATED SUBSIDIARY COMPANY

SHEET, JANUARY 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Notes payable:

Bank	\$ 500,000.00	
Purchase mortgage note due in 1948	10,000.00	
Other	<u>8,276.20</u>	\$ 518,276.20
Accounts payable, including \$3,643.43 to affiliated companies		2,512,945.60
Accrued salaries, taxes and expenses		191,336.94
Federal and state taxes on income—estimated—Note B		<u>664,135.74</u>
TOTAL CURRENT LIABILITIES		\$ 3,886,694.48

LONG TERM OBLIGATIONS:

Notes payable—2½%—payable \$40,000.00 semi-annually from July 15, 1952, maturing January 15, 1957 payable to City Stores Company ..	\$ 400,000.00	
Purchase mortgage notes—4½%—payable \$10,000.00 on July 15, 1948 and \$5,000.00 on July 15, 1949 ...	\$ 15,000.00	
Less note included in current liabilities above	<u>10,000.00</u>	<u>5,000.00</u> 405,000.00

RESERVES:

For self-insurance	\$ 28,300.00	
For contingencies	<u>75,000.00</u>	103,300.00

DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales		172,487.12
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MINORITY INTEREST:

Common stock of subsidiary company	\$ 4,000.00	
Surplus applicable thereto	<u>5,200.71</u>	9,200.71

CAPITAL STOCK AND SURPLUS:

Capital stock:

Common stock—par value \$50.00 per share:

Authorized 120,000 shares; issued 80,000 shares	\$4,000,000.00
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Surplus:

Capital surplus	\$ 250,000.00	
Earned surplus—Note B	<u>4,056,047.48</u>	<u>4,306,047.48</u> 8,306,047.48
		<u>\$12,882,729.79</u>

NOTE A—The Company's consolidated subsidiary company, Maison Blanche Realty Company, was committed at January 31, 1948, to the purchase and installation of new escalators in the main store building occupied by the parent company at an approximate cost of \$500,000.00.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

B. LOWENSTEIN & BROS., INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1948

ASSETS

CURRENT ASSETS:

Cash	\$ 342,065.44
Accounts receivable—trade (including \$320,544.12 of installment accounts) less reserve of \$76,000.00	1,612,896.43
Merchandise inventories—generally at cost on the basis of "last-in, first-out" determined by the use of published indices of price changes, less reserve of \$100,000.00	1,559,661.93
TOTAL CURRENT ASSETS	\$3,514,623.80

AFFILIATED COMPANIES:

Accounts receivable	20,901.27
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INVESTMENTS AND OTHER ASSETS:

Sundry investments, less reserve of \$269.67	\$ 251.00
Employee and sundry notes and accounts receivable	13,196.20
Refundable income and excess profits taxes of prior years—estimated..	99,400.00
	<u>112,847.20</u>

LAND, BUILDING AND EQUIPMENT—At Cost:

Land, including \$32,655.95 acquired for future expansion	\$ 52,655.95
Building, fixtures and equipment	\$1,513,392.75
Less reserves for depreciation	950,975.37
	<u>562,417.38</u>
Improvements to leased property	\$ 118,308.33
Less reserve for amortization	68,067.86
	<u>50,240.47</u>
	665,313.80

GOOD WILL—as stated on books	150,000.00
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses	106,646.44
	<u>\$4,570,332.51</u>

LIABILITIES

CURRENT LIABILITIES:

Notes payable to bank	\$ 50,000.00
Accounts payable, including \$183.94 to affiliated companies	1,324,095.36
Accrued salaries, taxes and expenses	86,296.32
Federal taxes on income—estimated—Note	250,200.00
TOTAL CURRENT LIABILITIES	\$1,710,591.68

RESERVES:

For self-insurance	\$ 11,500.00
For contingencies	25,000.00
	<u>36,500.00</u>

DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales	95,416.09
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CAPITAL STOCK AND SURPLUS:

Capital stock:	
Common stock—no par value; declared value \$100.00 per share:	
Authorized 15,000 shares; issued 11,450 shares	\$1,145,000.00
Surplus:	
Capital surplus	\$ 414,719.33
Earned surplus (since October 1, 1938)—Note	1,168,105.41
	<u>1,582,824.74</u>
	2,727,824.74
	<u>\$4,570,332.51</u>

NOTE—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

LOVEMAN, JOSEPH & LOEB AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1948

ASSETS

CURRENT ASSETS:

Cash	\$ 811,289.92
Accounts receivable—trade (including \$317,411.44 of installment accounts) less reserve of \$150,000.00	1,514,782.47
Merchandise inventories—at cost on the basis of "last-in, first-out" determined by the use of published indices of price changes, less reserve of \$261,414.49	1,404,163.94
TOTAL CURRENT ASSETS	<u>\$3,730,236.33</u>

AFFILIATED COMPANIES:

Accounts receivable	21,991.34
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INVESTMENTS AND OTHER ASSETS:

Investments:

In parent company—at cost (426 shares of common stock of City Stores Company)	\$ 4,695.75	
Sundry—less reserve of \$5,717.89	<u>4,022.01</u>	\$ 8,717.76
Cash surrender value of life insurance		37,810.30
Note, sundry accounts receivable, etc.		<u>13,235.41</u>
		59,763.47

LAND, BUILDINGS AND EQUIPMENT—Note A:

Land		\$ 994,465.96
Buildings, equipment, furniture, fixtures, etc.	\$1,636,763.78	
Less reserves for depreciation	<u>761,051.42</u>	<u>875,712.36</u>
		1,870,178.32

GOOD WILL—as stated on books	800,000.00
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes, etc.	49,574.56
	<u><u>\$6,531,744.02</u></u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 891,375.25
Mortgage installments due in 1948	10,280.40
Accrued salaries and taxes	133,822.67
Federal and state taxes on income—estimated—Note D	680,065.54
TOTAL CURRENT LIABILITIES	<u>\$1,715,543.86</u>

LONG TERM OBLIGATION:

Real estate mortgage—3½%—payable in 151 monthly installments of \$1,429.77 each—applicable to principal and interest	\$ 174,424.20	
Less installments included in current liabilities above	<u>10,280.40</u>	164,143.80

RESERVES:

For special compensation, pensions, etc.	146,000.57
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CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$100.00 per share:

Preferred stock—7% cumulative—redeemable at \$120.00 per share:		
Authorized and issued 10,000 shares	\$1,000,000.00	
Less 9,993 shares in treasury and 7 shares called for redemption	<u>1,000,000.00</u>	\$ —0—
Common stock:		
Authorized 20,000 shares	\$2,000,000.00	
Less unissued 3,780 shares	<u>378,000.00</u>	<u>1,622,000.00</u>
Earned surplus—Notes C and D	<u>2,884,055.79</u>	<u>4,506,055.79</u>
		<u><u>\$6,531,744.02</u></u>

NOTE A—Land stated at cost paid for in cash or capital stock at time of organization; buildings, fixtures, and equipment stated at cost less accumulated depreciation.

NOTE B—All gross profit and carrying charges on installment sales are taken into income in the year in which the sales are made.

NOTE C—Restricted in the amount of \$1,000,000.00 representing the par value of preferred shares held in treasury or called for redemption.

NOTE D—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

R. H. WHITE CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1948

ASSETS

CURRENT ASSETS:

Cash		\$ 321,879.41
Accounts receivable—trade (including \$915,402.73 of installment accounts) less reserve of \$102,175.19		2,464,960.40
Merchandise inventories:		
On hand—at lower of cost or market as determined by the retail inventory method	\$2,260,452.00	
In transit—at invoice cost	183,893.00	2,444,345.00
TOTAL CURRENT ASSETS		<u>\$5,231,184.81</u>

AFFILIATED COMPANIES:

Accounts receivable	14,822.97
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INVESTMENTS AND OTHER ASSETS:

Sundry investments	\$ 5,880.00
Sundry accounts receivable	27,826.47
	<u>33,706.47</u>

LAND, BUILDINGS AND EQUIPMENT—AT COST:

Land		\$1,469,013.88
Buildings, fixtures and equipment	\$1,956,041.58	
Less reserves for depreciation	273,495.97	1,682,545.61
Improvements to leased properties	\$ 8,368.56	
Less reserve for amortization	2,809.82	5,558.74
		<u>3,157,118.23</u>

DEFERRED CHARGES:

Inventory of supplies, prepaid insurance and expenses	151,890.33
	<u>\$8,588,722.81</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 717,259.11
Mortgage installments due in 1948	60,609.94
Accrued salaries, taxes, interest, and expenses	284,800.15
Federal taxes on income—estimated—Note	328,417.63
TOTAL CURRENT LIABILITIES	<u>\$1,391,086.83</u>

LONG TERM OBLIGATION:

Mortgage Note—3½%—payable \$141,000.00 annually; covering principal and interest—maturing May 1, 1962	\$2,319,422.59
Less installments included in current liabilities above	60,609.94
	<u>2,258,812.65</u>

RESERVE:

For restoration of leased properties	441,899.00
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DEFERRED INCOME:

Unearned carrying charges on installment sales	32,789.60
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CAPITAL STOCK AND SURPLUS:

Capital stock:		
Preferred 6% cumulative—par value \$100.00 per share:		
Authorized and issued 25,000 shares	\$2,500,000.00	
Less 1,000 shares in treasury	100,000.00	
	<u>\$2,400,000.00</u>	
Common—no par value:		
Authorized and issued 13,000 shares	1,300,000.00	\$3,700,000.00
Earned surplus—Note	764,134.73	4,464,134.73
		<u>\$8,588,722.81</u>

NOTE—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

KAUFMAN-STRAUS COMPANY, INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1948

ASSETS

CURRENT ASSETS:

Cash	\$ 343,070.61
United States Government securities—at cost and accrued interest	20,088.00
Accounts receivable—trade (including \$152,617.17 of installment accounts) less reserve of \$45,000.00	715,510.57
Merchandise inventories—generally at cost on the basis of “last-in, first-out” determined by the use of published indices of price changes, less reserve of \$10,000.00	753,492.54
TOTAL CURRENT ASSETS	\$1,832,161.72

AFFILIATED COMPANIES:

Accounts receivable	8,056.29
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INVESTMENTS AND OTHER ASSETS:

Sundry investments	\$ 503.00
Employee and sundry accounts receivable	3,402.29
Refundable income and excess profits taxes of prior years—estimated..	12,370.59
Insurance claims	44,045.15
	<u>60,321.03</u>

EQUIPMENT AND IMPROVEMENTS—Notes A and B:

Furniture, fixtures and other equipment	\$ 353,090.49
Less reserves for depreciation	203,611.29
Improvements to leased buildings	\$ 159,465.05
Less reserve for amortization	74,035.02
	<u>85,430.03</u>
	234,909.23

GOOD WILL—as stated on books	419,343.80
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses	55,881.48
	<u>\$2,610,673.55</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable, including \$1,904.42 to affiliated companies	\$ 607,756.98
Accrued salaries, taxes and expenses	184,714.92
Federal and state taxes on income—estimated—Note C	\$ 90,000.00
Less United States tax notes purchased for payment of such taxes when due	90,000.00
	<u>—0—</u>

TOTAL CURRENT LIABILITIES	\$ 792,471.90
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DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales	48,775.52
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RESERVE:

For contingencies	25,000.00
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CAPITAL STOCK AND SURPLUS:

Capital stock:

Preferred stock—7% cumulative—par value \$100.00 per share:	
Authorized and issued—10 shares	\$ 1,000.00
Less purchased for retirement—10 shares	1,000.00
	<u>\$ —0—</u>
Preferred stock—5% cumulative—par value \$100.00 per share:	
Authorized 2,422 shares; issued 2,395 shares	\$ 239,500.00
Less retired 1,618 shares	161,800.00
	<u>\$ 77,700.00</u>
Common stock—par value \$100.00 per share:	
Authorized and issued 8,000 shares	800,000.00
	<u>\$ 877,700.00</u>

Surplus:

Capital surplus	\$ 240,930.31
Earned surplus (since February 1, 1940)—Note C ..	625,795.82
	<u>866,726.13</u>
	1,744,426.13
	<u>\$2,610,673.55</u>

NOTE A—Stated at sound values as determined in January, 1936, by The American Appraisal Company, plus subsequent additions at cost, less accumulated depreciation and amortization.

NOTE B—Under provisions of a lease agreement, the Company has agreed to advance to the lessor an amount not exceeding \$150,000.00 (to be used as part payment for contemplated betterments and improvements to the leased property); to spend not less than \$400,000.00 for improvements and fixtures; and at the time of completion of these improvements to have net current assets of not less than \$1,000,000.00.

NOTE C—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash on hand and in banks	\$ 675,039.76	
Marketable securities—at market quotations, plus accrued interest	59,316.87	
Accounts receivable, customers and miscellaneous, less reserve for doubtful accounts ..	1,796,066.44	
Merchandise inventory—priced at the lower of cost or market based upon the retail inventory method, less reserve for discount	1,674,080.12	
Merchandise in transit—at invoice cost	207,846.93	
TOTAL CURRENT ASSETS	<u>\$4,412,350.12</u>	

OTHER ASSETS:

Rent deposit	\$ 10,000.00	
Sundry investments	5,534.00	
Estimated refundable portion of prior years' Federal taxes on income under carry-back provisions of Internal Revenue Code—Note B	65,000.00	
Due from leased departments—non-current	<u>74,993.44</u>	155,527.44

FIXED ASSETS:

Land and buildings—at cost—subject, in part, to mortgages payable—shown contra—Note A:		
Land	\$1,665,085.91	
Buildings	\$2,681,768.78	
Less: Reserve for depreciation	<u>1,536,834.60</u>	1,144,934.18
Furniture and fixtures and improvements of parent company at July 31, 1934, at nominal value of \$1.00, plus subsequent additions at cost	1,307,499.81	
Less: Reserves for depreciation and amortization..	<u>513,549.76</u>	793,950.05
Construction in progress—Note C	<u>188,596.06</u>	3,792,566.20

DEFERRED CHARGES		239,555.33
		<u>\$8,599,999.09</u>

NOTE A—The assets of the wholly-owned subsidiaries consist primarily of land and buildings, at a depreciated value of \$2,689,657.67, which are subject to mortgages aggregating \$1,691,031.39, of which installments aggregating \$29,645.01 are due within one year. The subsidiaries are the primary obligors on the bonds secured by the mortgages, and Oppenheim, Collins & Co., Inc. is not liable thereunder.

NOTE B—The corporation filed consolidated Federal tax returns for the year ended July 31, 1945. In the computation of the provision for Federal taxes on income for the year then ended, a loss of \$1,033,111.30 on the sale of real estate by a subsidiary was taken as a deduction. If it were not for this deduction, the provision for Federal taxes on income would have been approximately \$805,000.00 greater and the corporation would not have been entitled to file claims for refund of approximately \$65,000.00 under the carry-back provisions of the Internal Revenue Code.

The accompanying consolidated balance sheet is subject to final determination of Federal, state and local taxes.

NOTE C—Construction work in progress as at January 31, 1948 to be completed subsequent to this date and amounting to approximately \$215,000.00 has not been reflected in the assets or liabilities of the accompanying balance sheet.

AND WHOLLY-OWNED SUBSIDIARIES

AS AT JANUARY 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Accounts payable—merchandise—net	\$	304,801.35
Accounts payable—merchandise in transit		207,846.93
Sundry accounts payable and accrued expenses		713,515.15
Mortgage installments payable within one year		29,645.01
Reserve for Federal taxes on income—Note B	\$	350,390.59
Less: United States Treasury Savings Notes—Series C—at cost, plus accrued interest		185,103.00
TOTAL CURRENT LIABILITIES		<u>\$1,421,096.03</u>

MORTGAGES PAYABLE IN INSTALLMENTS THROUGH 1954—Note A	\$1,691,031.39	
Less: Current installments shown above	<u>29,645.01</u>	1,661,386.38

RESERVES:

Self-insurance	\$	29,160.84
Contingencies		<u>150,000.00</u>
		179,160.84

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$10.00 per share:			
Authorized and issued 220,000 shares.....	\$2,200,000.00		
Less: Held in treasury . 20,037 shares.....	<u>200,370.00</u>		
Outstanding <u>199,963</u> shares.....	<u>\$1,999,630.00</u>		
Surplus:			
Initial and capital surplus	\$1,655,709.36		
Earned surplus—Note B	<u>1,683,016.48</u>	<u>3,338,725.84</u>	5,338,355.84
			<u>\$8,599,999.09</u>

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
125 PARK AVENUE, NEW YORK
ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
OPPENHEIM, COLLINS & Co., INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Oppenheim, Collins & Co., Inc. (a Delaware corporation) and wholly-owned subsidiaries as at January 31, 1948; have reviewed the system of internal control and accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

We made a review of inventory methods and procedures and had representatives present during the taking of the inventories. We made substantial tests of the quantities recorded and also test-checked prices and mathematical calculations. A test-check of accounts receivable was made by direct communication with customers.

In our opinion, the accompanying consolidated balance sheet, together with the notes to consolidated balance sheet, presents fairly the consolidated position of Oppenheim, Collins & Co., Inc. (a Delaware corporation) and wholly-owned subsidiaries at January 31, 1948, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
April 5, 1948.

S. D. LEIDESDORF & CO.

RICHARD STORE COMPANY

BALANCE SHEET, JANUARY 31, 1948

ASSETS

CURRENT ASSETS:

Cash		\$ 451,696.42	
Accounts receivable—trade (including \$64,283.24 of installment accounts) less reserve of \$10,000.00			272,906.45
Merchandise inventories:			
On hand—at lower of cost or market as determined by the retail inventory method, less reserve of \$177,000.00	\$ 605,935.51		
In transit—at invoice cost	181,162.51		787,098.02
TOTAL CURRENT ASSETS			<u>\$1,511,700.89</u>

AFFILIATED COMPANIES:

Accounts receivable		3,521.45
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OTHER ASSETS:

Sundry accounts receivable, etc.		10,721.80
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LAND, BUILDINGS AND EQUIPMENT—NOTE A:

Land	\$ 229,900.00		
Buildings, fixtures and equipment	\$1,244,370.96		
Less reserves for depreciation	365,249.86	879,121.10	1,109,021.10

DEFERRED CHARGES:

Prepaid insurance, supplies and expense		76,102.89	
			<u>\$2,711,068.13</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable, including \$269.11 to affiliated companies	\$ 444,780.67		
Accrued salaries, commissions and taxes	59,306.80		
Federal taxes on income—estimated—Note B	212,724.96		
TOTAL CURRENT LIABILITIES		\$ 716,812.43	

DEFERRED INCOME:

Rents received in advance	\$ 1,890.26		
Unearned carrying charges on installment sales	1,285.66		3,175.92

CAPITAL STOCK AND SURPLUS:

Capital stock:			
Common stock—par value \$100.00 per share:			
Authorized and issued 10,000 shares	\$1,000,000.00		
Surplus:			
Arising from revaluation of properties—Note A	\$ 437,525.84		
Earned surplus—Note B	553,553.94	991,079.78	1,991,079.78
			<u>\$2,711,068.13</u>

NOTE A—Land is stated as appraised as of June 27, 1939, by independent appraisers, plus a subsequent addition at cost in the amount of \$4,900.00. Buildings and equipment are stated at sound values as reported by independent appraisers as of June 15, 1939, plus subsequent additions at cost less reserves for depreciation since date of appraisal. At January 31, 1948, the unamortized appreciation amounted to \$437,525.84. Under the terms of a lease, covering a period of 99 years from January 1, 1945, the Company is required to erect within five years after the end of the war, a building on the leased land at a cost of not less than \$150,000.00. As a part of the consideration a small strip of land now owned by the Company, included in the land account at a cost of \$4,900.00, is to be deeded to the lessor of the land on which the building is to be erected. This small strip of land adjoins and becomes a part of the land covered by the lease.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for Federal taxes on income.



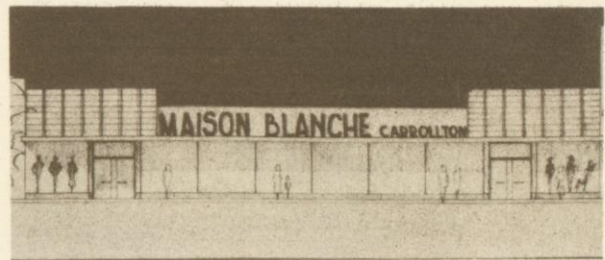
LIT BROTHERS
Philadelphia, Pa.



LIT BROTHERS
Warehouse
Philadelphia



MAISON BLANCHE COMPANY
New Orleans, La.



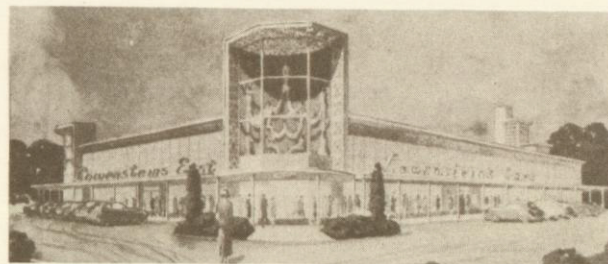
MAISON BLANCHE COMPANY
Carrollton, New Orleans



MAISON BLANCHE COMPANY
Gentilly, New Orleans



B. LOWENSTEIN & BROS., INC.
Memphis, Tenn.



LOWENSTEIN'S "OUT EAST"
Memphis



LOWENSTEIN'S HOME SERVICE, INC.
Memphis

Figure 1

Figure 2

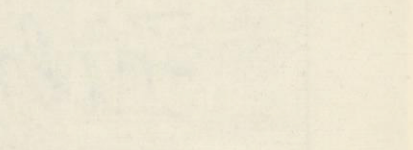
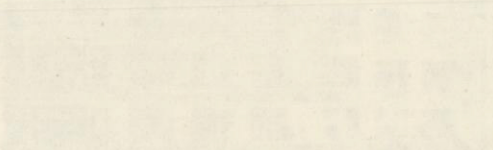
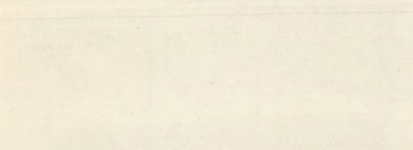
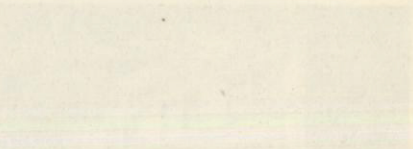


Figure 10

Figure 11

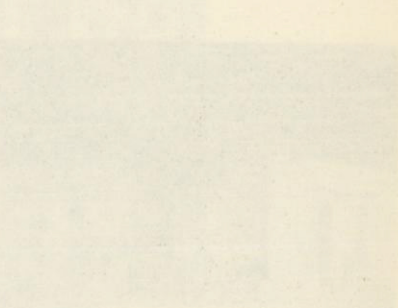
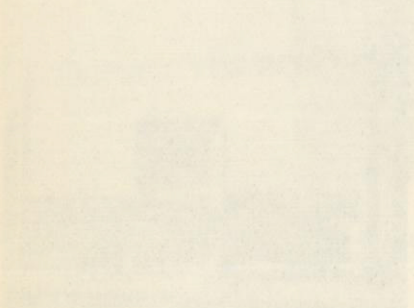


Figure 13

Figure 14

Figure 15

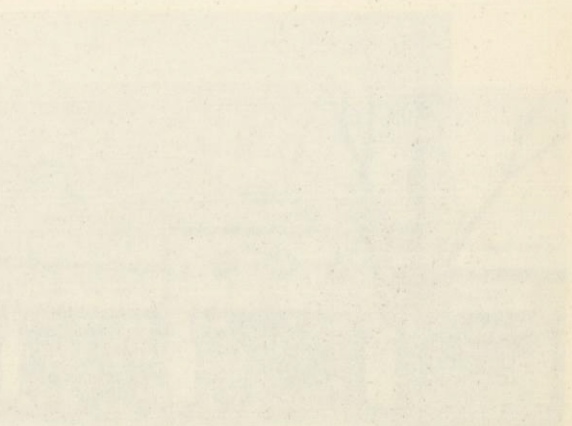
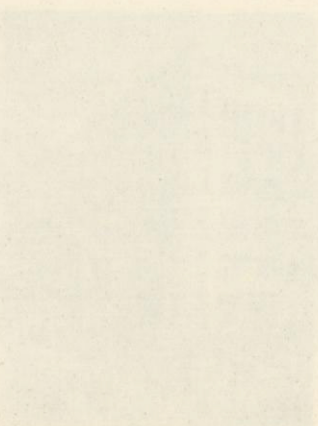
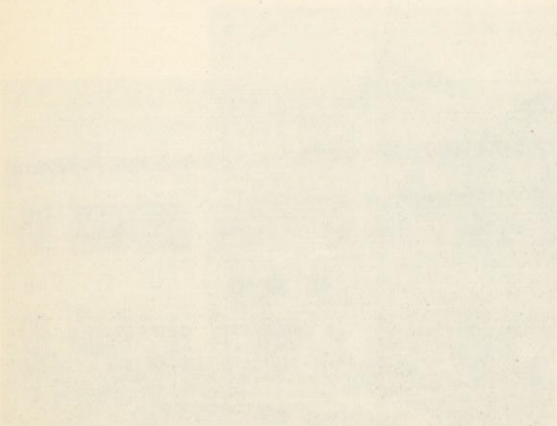


Figure 16

Figure 17

Figure 18



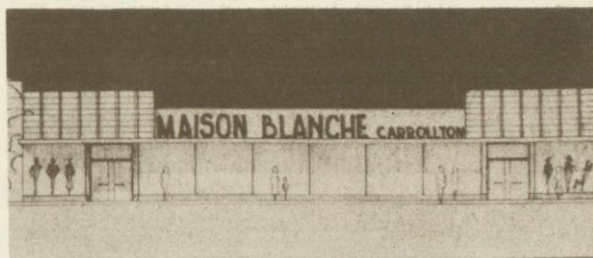
LIT BROTHERS
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LIT BROTHERS
Warehouse
Philadelphia



MAISON BLANCHE COMPANY
New Orleans, La.



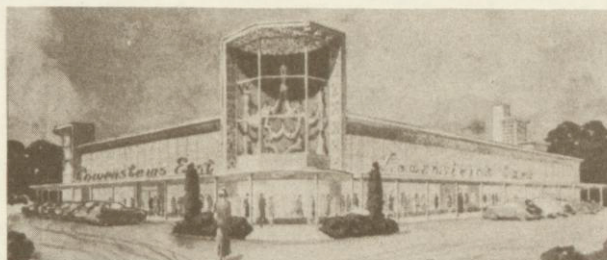
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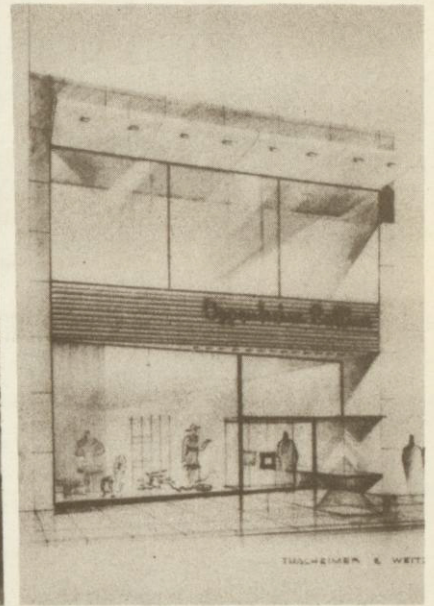
OPPENHEIM, COLLINS & Co., Inc.



Philadelphia, Pa.



New York, 34th Street



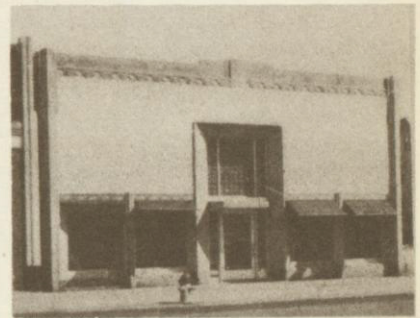
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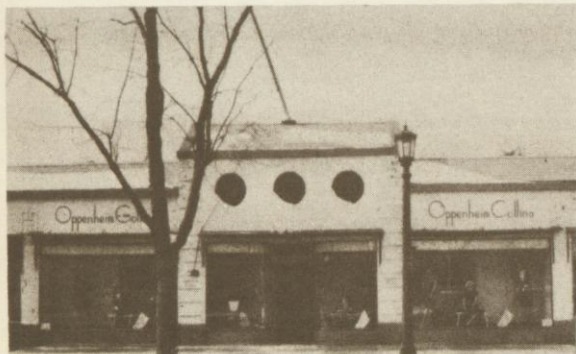
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Brooklyn, N. Y.



East Orange, N. J.



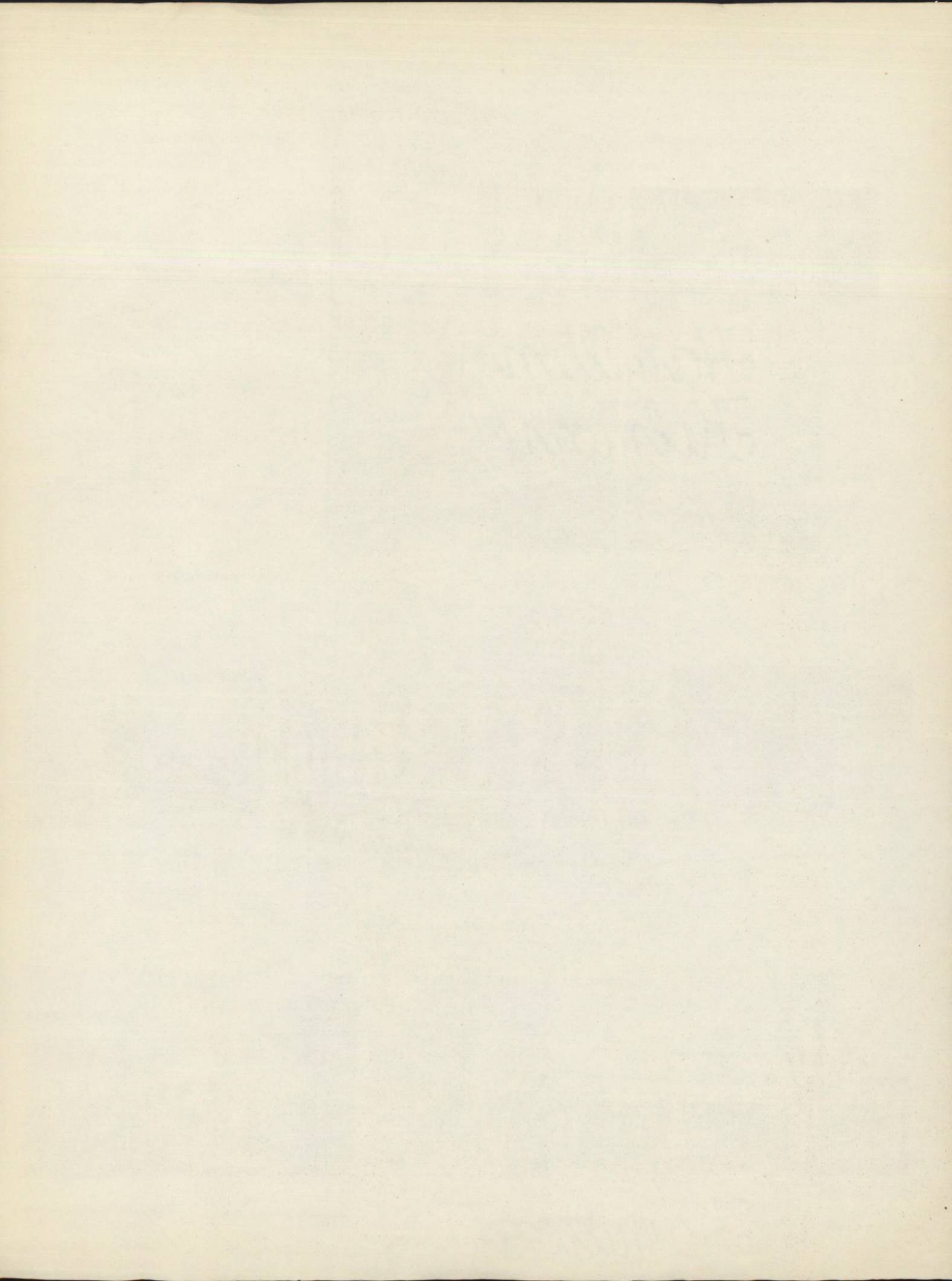
Garden City, N. Y.



Buffalo, N. Y.

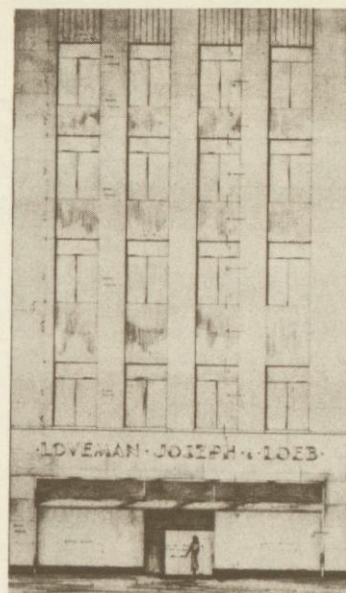


White Plains, N. Y.





LOVEMAN, JOSEPH & LOEB
Birmingham, Ala.



LOVEMAN, JOSEPH & LOEB, ANNEX
Birmingham



KAUFMAN-STRAUS COMPANY, INC.
Louisville, Ky.



RICHARD STORE COMPANY
Miami, Fla.



R. H. WHITE CORPORATION
Boston, Mass.



R. H. WHITE CORPORATION
Warehouse
Cambridge, Mass.

